

Message Text

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ACTION EUR-25

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: CENTRAL BANK COUNCIL MEETING; MINIMUM RESERVE

REQUIREMENTS REDUCED - GOVERNMENT PLANS FOR CURTAILMENT
OF CAPITAL CONTROLS BASICALLY WELCOMED

REF: BONN 425

1. SUMMARY: AT TODAY'S MEETING, THE CENTRAL BANK COUNCIL
(1) DECIDED TO OFFSET THE LIQUIDITY DRAIN RESULTING FROM THE
RECENT OUTFLOW OF FOREIGN EXCHANGE THROUGH A REDUCTION OF
MINIMUM RESERVE REQUIREMENTS AND (2) BASICALLY AGREED TO
GOVERNMENT PLANS TO CURTAIL CAPITAL CONTROLS. END SUMMARY.

2. THE FOLLOWING MEASURES BECOME EFFECTIVE JANUARY 1, 1974:

(A) THE MINIMUM RESERVE REQUIREMENTS FOR FOREIGN LIABILITIES
ARE REDUCED BY 5 PERCENTAGE POINTS EACH, I.E., TO 35 PERCENT
FOR SIGHT DEPOSITS, 30 PERCENT FOR TIME DEPOSITS, AND 25
PERCENT FOR SAVINGS DEPOSITS;

(B) THE ADDITIONAL MINIMUM RESERVE REQUIREMENT ON ADDITIONS
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TO FOREIGN LIABILITIES (60 PERCENT) IS CANCELLED;

(C) MINIMUM RESERVE RATIOS FOR DOMESTIC LIABILITIES (WHICH VARY, DEPENDING ON THE SIZE AND LOCATION OF THE INDIVIDUAL BANKS) ARE REDUCED BY 5 PERCENT.

3. ACCORDING TO THE COUNCIL, THESE MEASURES TAKEN TOGETHER WILL CUT TOTAL MINIMUM RESERVE REQUIREMENTS IN JANUARY TO A LEVEL APPROXIMATELY DM 4.5 BILLION BELOW THAT TO BE HELD OTHERWISE. THIS DM 4.5 BILLION "ROUGHLY MATCHES THE FOREIGN EXCHANGE OUTFLOWS SINCE EARLY DECEMBER".

4. ON THE OTHER HAND, THE CENTRAL BANK COUNCIL DECIDED TO DISCONTINUE, EFFECTIVE TODAY, THE SPECIAL LOMBARD CREDITS TO BANKS; SPECIAL LOMBARD CREDITS OUTSTANDING BECOME DUE FOR REDEMPTION ON JANUARY 16.

5. DURING THE MEETING, ATTENDED BY STATE SECRETARY POEHL OF THE FINANCE MINISTRY, THE CENTRAL BANK COUNCIL ALSO BASICALLY AGREED TO THE STEP-BY-STEP REDUCTION OF CAPITAL CONTROLS CONTEMPLATED BY THE FINANCE MINISTER (SEE REFTEL). HOWEVER, DETAILS ARE TO BE COORDINATED BETWEEN MINISTRY AND BUNDESBANK OFFICIALS PRIOR TO REPEAT PRIOR TO FORMAL CABINET DECISIONS ON THE SUBJECT.

HILLENBRAND

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